PRIME

COST SEGREGATION



A cost segregation study is a tax strategy that accelerates depreciation deductions on for-profit real estate by reclassifying parts of the property as shorter-lived assets. This reduces taxable income in the short term by allocating costs to categories with shorter depreciation lives.

In essence, **a cost segregation study allows you to frontload depreciation deductions for specific classified assets**. While properties generally depreciate over 27.5 or 39 years, components like flooring, lighting, or landscaping may qualify for 5–15 year depreciation. Even systems like HVAC or plumbing might be eligible for shorter tax lives in certain cases.

This can get a little complicated, but think of it like this: you can sell an old clunker car as-is for a set price, or you can take the car apart and capitalize on selling each individual component for a much higher profit in the long run. This is, of course, not a perfect analogy but it helps you get the general idea.

QUALIFICATIONS

This strategy is primarily utilized on real estate assets, so the main qualification is to own real estate. In particular, properties worth $500,000 or more are most well-suited for this strategy as a cost segregation study is the most cost-effective for higher value properties. Smaller properties may not yield enough tax savings to justify the cost of the study, though exceptions exist based on specific circumstances. More specific qualifiers include:

- **Owners of Commercial Real Estate:** Commercial real estate includes any type of property utilized for commercial purposes. This can include office spaces, shopping centers, hotels, warehouses, factories, retail spaces, and more

IMPLEMENTATION

For a detailed implementation checklist and other helpful resources, scan the QR code below or click **here**.

- **Owners of Residential Rental Property:** Residential rental property is any type of property utilized for residential use, such as apartment buildings, multi-family housing, or single-family housing. It's important to note that these properties must be for rental usage. Personal residences do not qualify for a cost segregation study.
- **Real Estate Developers and Investors:** Developers and investors who build or improve properties can benefit greatly from applying cost segregation to new constructions, renovations, and improvements. Even investors who acquire older properties can benefit from "catch-up" depreciation after the property has been placed in service.
    - **Businesses that Own Real Estate:** If you've established a business entity and have purchased property under the entity instead of yourself as an individual, you're still able to utilize the cost segregation strategy to accelerate depreciation on certain assets.

GOT QUESTIONS?

Email **decoder@primecorporateservices.com**
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